WASHINGTON STATE LEGISLATURE

Office of the State Actuary

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TO: Steve Nelsen, Executive Director
LEOFF 2 Retirement Board

FROM: Marty McCaulay, FSA, EA, MAAA, Senior Pension Actuary PMM
Office of the State Actuary

CC: Matt Smith, FCA, EA, MAAA, State Actuary
Office of the State Actuary

RE: UPDATED MEMO ON PROPOSED CHANGES FOR FISH AND WILDLIFE ENFORCEMENT OFFICERS TRANSFER PAST PERS PLAN 2 SERVICE TO LEOFF PLAN 2

This memo is an update of the memo dated October 25, 2005, and presents the results of pricing the proposed transfer of past service credit from the Public Employees' Retirement System (PERS) Plan 2 to LEOFF Plan 2 for Fish and Wildlife enforcement officers who were granted prospective membership effective July 2003. The Board is considering two options to pay for the cost of transferring past PERS 2 credit to LEOFF 2 and both options include a transfer of assets from PERS and member contributions. Under Option 1, there would be an additional payment from the department of Fish and Wildlife and no impact on contribution rates. Under Option 2, there would be no additional Fish and Wildlife contributions, resulting in an impact on contribution rates.

Cost Summary

Cost Summary		
Rate Increase	**Option 1**	**Option 2**
Employee	0.00%	0.01%
Employer	0.00%	0.00%
State	0.00%	0.01%
2007-2009 Costs		
(In Millions)		
Employee	$0.0	$0.2
Employer	$0.0	$0.1
State	$0.0	$0.1

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Summary of the Proposal

To move eligible past-service credit from PERS 2 to LEOFF 2, an employee would be required to make a payment to the retirement system to make up for the difference in contributions, plus interest, that the employee would have made had they been in LEOFF 2 for the period of PERS service that is eligible for transfer. This payment would be made no later than June 30, 2011. Upon completion of the employee's required differential payment, double the employee's PERS contributions plus interest, up to an amount equal to the reduction in PERS fully projected liability from the transfer of service to LEOFF 2, would then be moved from PERS 2 to LEOFF 2. Under Option 1, Fish and Wildlife would make an additional contribution to LEOFF 2, based on procedures to be defined or to be established by the Department of Retirement Systems. Option 2 would not include the Fish and Wildlife contribution. The most recent version of the proposal indicates that the state shall contribute both the state and employer share of the cost under Option 2.

Members Impacted

This description of members impacted includes PERS 2 members based on data provided by the Department of Fish and Wildlife to the LEOFF 2 board. Of the 95 Fish and Wildlife enforcement officers active as of September 30, 2004, we were provided information for 70 who had eligible prior service credit in PERS Plan 2. Among the Fish and Wildlife active records were a handful of members with more than the approximately 1.2 years of service they could have earned in their current positions since joining LEOFF 2. These members most likely have past service with other LEOFF agencies. There are also active members with no past service in PERS 2 because they entered after July 2003 or they were members of PERS Plan 1 or Plan 3. Forty two PERS 2 members were vested in their respective plans. The remaining 28 PERS 2 members were not vested. A demographic summary of the affected members is shown below:

Demographic Summary of the Affected Members

	Count	Average Service (Years)	Average Savings Fund	Average Current Salary*
LEOFF actives	95	1.7	$5,961	$54,750
LEOFF actives with PERS service	70	10.6	$25,804	$55,374
PERS Service Range (Rounded, in years)				
0 - 2	15	1.2	$494	$49,363
3 - 5	14	3.4	$2,258	$52,257
6 - 10	8	7.8	$11,115	$55,495
11 - 15	11	13.7	$30,901	$60,745
16 - 20	10	18.1	$48,949	$56,445
21 +	12	23.6	$70,743	$60,626

**LEOFF 2 salary, effective September 30, 2004, is used for all records, including PERS inactive records.*

Costs

The liability reduction in PERS due to the proposed transfer is $4.6 million. This amount is offset by an estimated transfer of assets from PERS to LEOFF 2 of $3.6 million, which consists of double the member contributions, with interest, for past PERS service up to the amount of the liability reduction from transferring the past service to LEOFF 2. Overall, this proposal would result in a slight savings to PERS. The PERS contribution rates are not affected by this savings.

Adding past service for these members would result in a fully projected liability increase in LEOFF 2 of $6.4 million. This increase would be mitigated by the $3.6 million asset transfer from PERS 2, mentioned above, plus an additional $2.1 million in contributions by Fish and Wildlife members to make up for the differences between PERS and LEOFF historical member contributions. Under Option 1, there would be additional contributions from Fish and Wildlife of $0.7 million, with no increase in the net projected liability. Under Option 2, there would be no Fish and Wildlife contribution and the net projected liability would increase by $0.7 million resulting in an increase in contribution rates.

A summary of costs/(savings) for all parties appears below:

Summary of Costs (Savings)

(Dollars are in millions)	**PERS 2/3**	**LEOFF 2**	**Total**
Change in present value of fully projected benefits (The value of the total commitment to all current members)	(4.6)	6.4	1.8
Assets transferred from PERS 2 to LEOFF 2	3.6	(3.6)	0.0
Subtract additional member contributions	n/a	(2.1)	(2.1)
Subtract payment from Department of Fish and Wildlife			
Option 1	n/a	(0.7)	(0.7)
Option 2	n/a	0	0
Net change in present value of fully projected benefits			
Option 1	n/a	0	0
Option 2	n/a	0.7	0.7

The total contribution rate increase would be 0.00 percent under Option 1 and 0.02 percent under Option 2, as shown below. We included only PERS 2 members in our analysis. The fiscal impact will depend on which option is selected and how the rate increase, if any, is split. For the fiscal costs, Option 2 is shown as Option 2A or 2B. Option 2A is based on the state contributing both the state and employer share of the supplemental rate increase. Option 2B is based on the state contributing both the state and employer share of the cost of the supplemental rate increase, and any future basic rate increase.

Increase in Contribution Rates*
(Effective 09/01/2006)

Current Members	**Option 1**	**Option 2**

Employee	0.00%	0.01%
Employer	0.00%	0.00%
State	0.00%	0.01%
New Entrants		
Employee	0.00%	0.01%
Employer	0.00%	0.00%
State	0.00%	0.01%

**If optional Department of Fish and Wildlife payment is not made. It is assumed that the employer cost is assigned to the state.*

Fiscal Costs (in Millions):		**LEOFF 2**	
	Option 1	**Option 2A**	**Option 2B**
2006-2007			
State:			
General Fund	$0.0	$0.1	$0.1
Non-General Fund	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.1**	**$0.1**
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.1	$0.1
Total Employee	$0.0	$0.1	$0.1
2007-2009			
State:			
General Fund	$0.0	$0.1	$0.2
Non-General Fund	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.1**	**$0.2**
Local Government	$0.0	$0.1	$0.0
Total Employer	$0.0	$0.2	$0.2
Total Employee	$0.0	$0.2	$0.2
2006-2031			
State:			
General Fund	$0.0	$0.8	$2.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.8**	**$2.0**
Local Government	$0.0	$1.2	$0.0
Total Employer	$0.0	$2.0	$2.0
Total Employee	$0.0	$2.0	$2.0

Assumptions

We assume for this pricing exercise that all past PERS service is eligible for transfer to LEOFF. We also assume that only members of PERS 2 are eligible to transfer. We assume that this service transfer is only available to active Fish and Wildlife enforcement officers and that every active member who is eligible to transfer past PERS service credit to LEOFF 2 will do so. It is also assumed that once a member elects to transfer service from PERS to LEOFF, he or she will not retire or otherwise voluntarily terminate for the following five years. Option 2 resulted in a total rate increase of 0.01 percent before rounding. The member rate increase is 0.01 percent and employer rate is the same to ensure equal cost sharing under option 2A. We assumed that the split of the total 0.02 percent rate increase would be with 0.01 percent for the employee and 0.01 percent for the state for the 2006-2007 supplemental and the split would return to the usual 50/30/20 split as part of the overall basic rate thereafter. Under option 2B, we assume that the supplemental rate would be split as in Option 2A and there would be a change to the basic table split thereafter using a method to be determined and for a period to be determined.

All other assumptions are consistent with the assumptions disclosed in the 2004 LEOFF 2 Actuarial Valuation Report.

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